

California Board of Accountancy

President's Message



Ian B. Thomas
President

*I*t is a genuine pleasure and true privilege to write to you as the newly-elected President of the California Board of Accountancy. During this time of significant change in the regulation of the accounting profession in the face of continuing fiscal challenges, I recognize the trust that has been bestowed upon me by my colleagues, in behalf of the consumers of California. With the Board's vote of confidence, I hope to maintain the leadership and veracity provided by former President Wendy Perez in working with my colleagues to ensure our board's important vision and mission.

As a publicly-appointed member of the Board, I have had the pleasure of witnessing first-hand a profession that is dedicated, diligent, and maintains the utmost in integrity from the time a candidate first sits for the Certified Public Accountant's Exam. I recognize this hard-earned credential, the license, is a great accomplishment requiring an unbending commitment –

to continuing education and ever-changing technology – in order for licensees to be at the top of their game. For me, this experience has amplified my great respect for the professionals that provide accounting services in the state of California, and the importance with which consumers depend on those professionals.

I was first appointed in April 2001 and since then have had the opportunity to serve as Vice President of the Board, and as a member of the Enforcement Program Oversight Committee and Legislative Committee. As Chair of the Board's Auditing Standards and Practices Review Task Force in 2002, I worked with Board members, licensed professionals, and third-party interests in recommending a balanced plan for reforming auditing standards to the California Legislature.

Since then, our Board has been very busy focusing on a litany of issues, and there is much more to be done. The Board has, for the first time, a full complement of 15 board members, with the appointments of Ruben Davila and Olga Martinez, both licensed CPAs. [Please see *News to You* in this publication for more information about their respective backgrounds]. In addition, for the first time in this Board's history, all three officers are public members. At its last meeting, the Board unanimously supported the appointments of Renata Sos, a Bay Area attorney, as Vice President; and Stuart Waldman, a Los Angeles-based attorney and Chief-of-Staff to Assemblymember Lloyd Levine, as Secretary-Treasurer.

(Please see President's Message, continued on page 2)

Spokane

Mission Statement

The mission of the California Board of Accountancy is to protect the public welfare, particularly consumers, by ensuring that only qualified persons and firms are licensed to practice public accountancy and that appropriate standards of competency and practice, including ethics, objectivity and independence are established and enforced.

Vision Statement

The vision of the California Board of Accountancy is to be the premier regulatory agency that provides exemplary consumer protection, fosters high ethical standards, promotes continuous quality improvement in the practice of public accountancy, and operates with maximum efficiency.

In this Issue . . .

News to You	3
The Last of Their Kind	4
A Look at CPA Examination Sites —	
Then and Now	6
2003 Law Changes	8
Licensing FAQ	9
2004 Committee Member Appointments	10
Do you Know What's in Your Wallet?	10
Restatement Reporting Obligations	11
Clarifying Audit Documentation	
Requirements	12
What's New at www.dca.ca.gov/cba ?	13
Deferral of Fraud CE	14
Registration of Accountancy Firms and	
Fictitious Name Permits	15
Noninteractive Self-Study CE	16
Future Meetings	17
Disciplinary Actions	18

President's Message (continued from page 1)

On behalf of our Board, I would like to thank our immediate-past-president Wendy Perez for her service last year during a very busy and productive year. The Board also owes a tremendous debt of gratitude to Joseph Tseng who for the last two years has without fail ably served as Secretary/Treasurer. Ms. Perez and Mr. Tseng have both spent an enormous amount of time working on Board business outside of their normal duties and for that, this Board will always be grateful.

Speaking of productivity, as we entered the New Year, the Board “hit the ground running” appearing and testifying before the Joint Legislative Sunset Review Committee in hearings on January 6 and 7, 2004. In the presentation of our *2003-2004 Sunset Review Report*, the board focused on several key areas identified by the committee including:

- Reporting on problems with respect to the Policing and Disciplining of Accountants employed by a large public accounting firm.
- Reporting on the review of implementation of new licensing requirements.
- Reporting on the findings of the Board with regard to the need to implement a mandatory peer review program in California.

The Sunset Review Committee also requested information from the California Board of Accountancy on what safeguards are being taken by accounting firms that currently outsource tax preparation, as well as other accounting and financial services of clients to foreign countries. The Committee observed that it is unclear what disclosure and security requirements are currently required to assure clients that they are informed about outsourcing of their financial information overseas and that their financial data is protected. In order to make an informed recommendation to the Legislature, which may propose legislation related to outsourcing, our Board reported that the Committee on Professional Conduct would be carefully considering the matter for a final action to be determined at its February Board meeting.

(Please see President's Message, continued to page 8)

Issues of Interest *to the Consumer and the Practitioner*

News to You

Two new CPA members have been appointed to the California Board of Accountancy

In November 2003, Governor Gray Davis announced the appointments of Ruben A. Davila, CPA, Esq., and M. Olga Martinez, CPA, to the Board.

Mr. Davila, of Los Angeles, is a Professor of Clinical Accounting at the University of Southern California — Leventhal School of Accounting, a position he has held since 1986. He also serves as a Consultant and Forensic Accountant. Since 2001, he has been an attorney at law. His bachelor of science accounting degree is from Loyola Marymount University, his master of business administration degree is from the University of Southern California, and his juris doctorate degree is from Loyola Law School. He has been a CPA since 1982.

Ms. Martinez, of Concord, has been a California CPA licensee since 1980. Her professional experience has mainly concentrated in the tax area for individuals, corporations, partnerships, fiduciaries, and estates. She also has had experience in family litigation services and business evaluations. She spent one year in private accounting, and two years as a tax auditor with the Franchise Tax Board. She earned her bachelor of science accounting degree from California State University, Chico, and her master's degree in taxation from Golden Gate University.

November 2003 Uniform CPA Examination

The last paper-and-pencil Uniform CPA Examination was held on November 5-6, 2003, at three California sites: Pleasanton, Pomona, and Sacramento. This examination was the second largest CPA examination administered in California. A total of 10,667 candidates were scheduled to sit for the examination; 2,749 in Pleasanton, 6,818 in Pomona, and 1,100 in Sacramento. After a 19 percent no-show rate, 8,613 candidates actually sat at the three California locations.

Of the total number of applicants scheduled, 7,797 were from California, 608 were from outside of

California, and 2,262 were foreign applicants. In addition, 21 courtesy candidates from other states were scheduled to be proctored in California, and 82 California candidates were scheduled to sit in other states.

February 2, 2004, is the uniform grade mailing date for the November 2003 Examination. Please see the article "The Last of Their Kind" in this issue for more information about the November 2003 examination and the upcoming computer-based CPA Examination.

SOX Cascade Effects Task Force

The Board has organized its SOX Cascade Effects Task Force to study which, if any, of the provisions of the federal Sarbanes-Oxley Act of 2002 (SOX) should apply to audits of non-public companies. Topics on the Task Force's agenda include issues related to auditors reporting to audit committees, issues related to non-audit services provided by auditors to private companies, and issues related to audit partner rotation. The Task Force held its first meeting on November 13, 2003, and a second meeting was held February 2, 2004. The task force is chaired by Board member Joseph Tseng, CPA.

UAA Task Force

To evaluate issues related to cross-border practice by qualified CPAs, the Board has organized its UAA Task Force. The task force will be evaluating the Uniform Accountancy Act's (UAA) concepts of substantial equivalency and cross-border practice to develop recommendations regarding how substantial equivalency could be implemented in California consistent with the Board's mission of protecting the public welfare. The Task Force is chaired by Board member and Vice President, Renata Sos. The Task Force held its first meeting on December 17, 2003.

The Last of Their Kind

By Mary Gale, Communications and Planning Manager

The paper-and-pencil Uniform CPA Examination has passed into history, and the 8,613 candidates who sat for the final old-format examination in California in November 2003 are now a part of that past. They are the last of their kind. Any licensee reading this article also is a part of that history because the new Uniform Computerized CPA Examination will be initiated in April 2004. The candidates who sit for the first computer-based examination will be pioneers — the first of their kind! Some of them will be unique in that not only will they have taken the last paper-and-pencil examination, but in their quest to pass all four parts, they'll be sitting in a computer booth taking the examination in its new format.

The enormous testing sites in Sacramento, Pleasanton, and Pomona also are now history, along with the endless tables massed with candidates. All licensees remember the hundreds of people sitting in these large halls for hours on end. Now, that's all changed, in every sense of the word, from the examination's format to the physical testing environment.

Starting in April 2004, Prometric Testing Centers will deliver the computer-based Uniform CPA Examination at more than 300 testing centers in the United States — approximately 20 of which are in California. Approved candidates will then register directly with a Prometric testing center, either by phone or via the Internet, to take one or more sections of the CPA examination. California candidates are not even required to take the CPA Examination at a Prometric site located in California. However, should a candidate want to sit in this state, a total of approximately 410 seats will be available each testing day in California — quite a contrast to the more than 8,600 seats that were required for November 5-6, 2003! Incidentally, this last examination was the second largest in the Board's history.

It's a little difficult to fathom, but the CPA examination has actually spanned three centuries, starting in the 19th century, and progressing through to the 21st. Looking back at the exam's history, much has changed since 1896, when the first CPA examination in the nation was given in New York. Four years later, California passed legislation creating this state's Board of Accountancy.

If you're wondering what some of the early questions were, here's a sample from the 1901 examination, in the "Theory of Accounts" section:

"State the purpose for which series of perpendicular columns are employed in books of original entry and how these purposes may be accomplished relative to the following conditions:

- a) several ledgers comprehended in one system of accounts.
- b) several departments comprehended in one business.
- c) several accounts comprehended in income and expenditure."

Those perpendicular columns have vanished along with the "books of original entry" and today, of course, candidates sit for a Uniform CPA Examination. It wasn't always that way. According to the American Institute of Certified Public Accountants (AICPA), the idea of a national examination first surfaced in 1917. Interestingly, the examination fee in 1917 was \$25.00, with a \$10.00 fee for re-examination. One year later, California was one of 16 states to cooperate with the AICPA in administering the CPA exam. On a nationwide basis, it would take 35 years for all states and other jurisdictions of the United States to participate in the Uniform CPA Examination, California being one of the first to take part in 1918. AICPA records show that by 1920, 31 jurisdictions were administering a national examination. By 1952, all 53 existing jurisdictions had adopted the use of the Uniform CPA Examination, and in 1968, Guam became the 54th and final jurisdiction to adopt the examination.

(Please see *The Last of Their Kind*,
continued to page 5)

California Board of Accountancy

Who were the first candidates in California? All of them were white males, and this was a trend that continued from the Board's first 65 licensees in 1901, until 1910 when Myrtle Cerf became the Board's first woman CPA, issued license number 110. Women certainly were a rarity in the profession, not only in California but nationwide. This Board's records show there were five licenses issued to women in California — prior to the passage of the 19th Amendment giving them the constitutional right to vote. These pioneering women could make business decisions for themselves and their clients, but ironically while they were licensed into such an important profession that requires independence — they didn't possess the basic entitlement to choose their government representatives until 1920.

Now, in the 21st century, the demographics are entirely different. California's men and women licensees are from all races and backgrounds. Unlike the first CPA examination candidates, the men don't wear coats and ties to the examination, and the women aren't outfitted in suits and hats. While we don't know for sure, most likely those sitting for the computer-based exam will dress in the most casual of outfits, clothing that cannot even have been imagined back in 1896! Of course, computers weren't imagined either, unless it was from the mind of a Jules Verne or an H.G. Wells.

Today, when we look back on the paper-and-pencil examination, we realize that a sort of communal experience has ended. It is a huge change for the candidates, and it significantly alters the work of the staff of this Board, as well as those at the National Association of State Boards of Accountancy and the AICPA.

May and November of each year have held a special significance since the beginning of the uniform examination — the test was always given exclusively during those two months. Now it will be available eight out of 12 months each year. During the first four testing windows, the examination will be available:

- April — May 2004.
- July — August 2004.
- October — November 2004.
- January — February 2005.

Just as the paper-and-pencil examination is gone, the "hard copy" application for the examination is also fast becoming an anachronism. Here at the California Board of Accountancy, approximately 95 percent of all candidates currently apply on-line via our Web site, and that percentage is growing. Candidates also can check the status of their applications online, and it is anticipated that eventually, grades will be available online. Until that time, this Board will continue to release grades in the conventional manner, via U.S. mail.

As we bid farewell to the old examination, we want to say "thank you" to all of the proctors who have worked so hard over the years to assist this Board in giving the examination. It has been a massive undertaking for all concerned. To all who sat in large testing halls, consider yourself to be veterans of a bygone era. To those who will sit for the soon-to-come computer-based Uniform CPA examination, you are pioneers who are about to usher in a new ritual on the path to becoming a certified public accountant. ♦

A Look at CPA Examination Sites — Then and Now

We thought it might be interesting to travel back in time to see what the Uniform CPA Examination looked like in 1960, courtesy of photographs from the California Board of Accountancy archives. These photographs were taken from the examination site in Long Beach in May 1964.

For contrast, we show some photographs of the testing sites in November 2003 — the last paper-and-pencil examination.

Whether then or now, the photos show all the candidates hard at work, taking what probably has proven to be the toughest tests of their lives!

Then (May 1964)

Long Beach

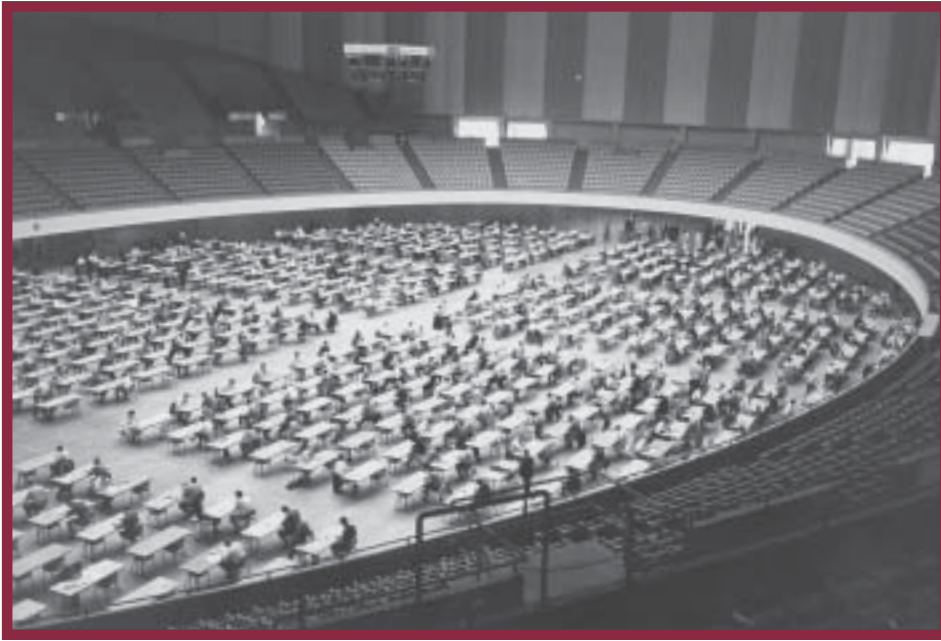


Photo from the California Board of Accountancy Archives



Photo from the California Board of Accountancy Archives

*(Please see A Look at CPA Examination Sites,
continued to page 7)*

Now (November 2003)

Pomona

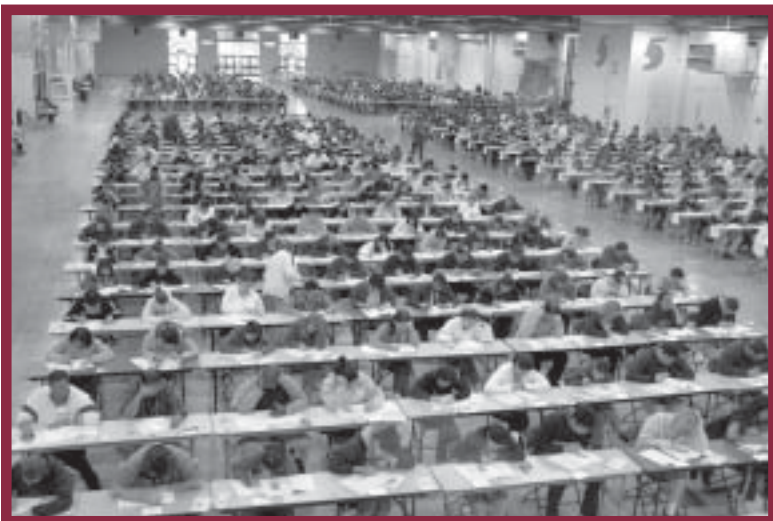


Photo Courtesy of Hal Schultz, CPA

Pleasanton

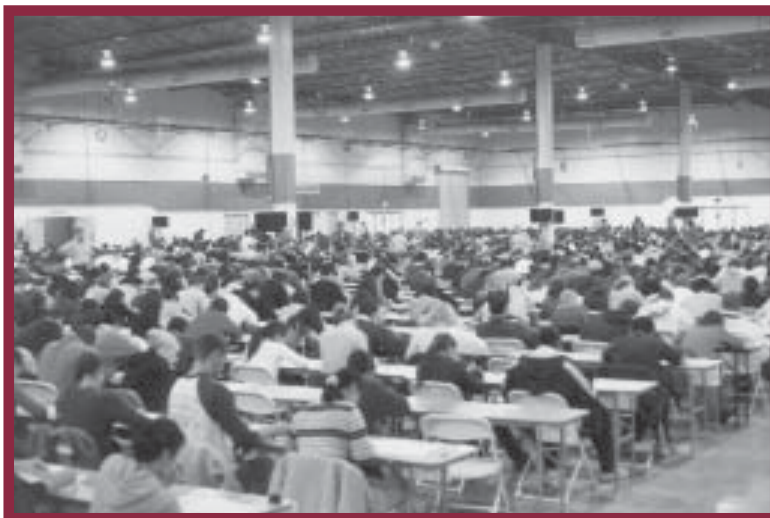


Photo Courtesy of Stephen Cooley

Sacramento



Photo Courtesy of Moises Yanez

2003 Law Changes

New laws for the Board, its applicants, and its licensees, are now in effect as a result of legislation signed into law during the 2003 legislative session. These changes were contained in three bills, Senate Bill 1080, Assembly Bill 827, and Assembly Bill 1756.

SB 1080 by the Senate Business and Professions Committee (Chapter 807) amended Business and Professions Code Section 5001 to permit one of the licensee members of the Board to be an educator in an accounting program at a college, university, or other four-year educational institution. This position has been filled by Ruben A. Davila, CPA (please see *News to You* in this publication for more information about Mr. Davila).

Other changes contained in SB 1080 revise the Board's laws related to the examination so that candidates taking the computerized Uniform CPA Examination can pay their fees directly to the National Association of State Boards of Accountancy. This was an essential step for the transition to computer-based testing. AB 1756 by the Assembly Budget Committee (Chapter 228) provides the same provision.

SB 1080 also repealed Business and Professions Code Section 5091 which required applicants for the Uniform CPA Examination to choose a pathway when first applying for the examination. This requirement will be obsolete with computer-based testing because Pathways 1 and 2 will have the same examination passage requirements. Applicants will not need to choose a pathway until they apply for licensure.

In addition, SB 1080 added a new section, Business and Professions Code Section 5115, to permit the Board to specify a period of up to three years during which the holder of a revoked or a surrendered license cannot petition the Board for reinstatement of the license. The former time frame was one year. This law change is intended to create a more efficient process for both petitioners and the Board.

AB 827 by the Assembly Business and Professions Committee (Chapter 563) also addressed Board composition by revising Section 450.5 of the General Business and Professions Code. This section now prohibits a public board member from having provided representation to the profession at any time within five years preceding appointment and from providing this representation during his or her term of office.

The Accountancy Act and Accountancy Regulations, including the text of these new laws, are available on the Board's Web site under *Codes and Regulations*. ♦

President's Message (continued from page 2)

As more information on this topic becomes available, it will be provided to licensees and all other interested parties. In the meantime, the Board's 2003-2004 Sunset Review Report is posted on our Web page, if you are interested in reading it.

I look forward to a year of challenges and innovations, as we seek to provide the very best in service to all of our constituents. As always

your comments and input are welcome, and your involvement in the regulation of your profession is encouraged.



Ian B. Thomas
President

Licensing FAQ

Question: I was licensed only with general experience and now wish to perform attest services. Is there an application and/or fee required?

Answer: Section 5095 of the California Accountancy Act requires a minimum of 500 hours of attest experience, performed under the supervision of a licensee authorized to perform attest services. A Request for Acknowledgment of Licensee's Completion of Attest Experience (request) must be submitted to the Board and is available on the Board's Web site at www.dca.ca.gov/cba. A Form E ("Certificate of Experience") documenting the attest experience also is required. There is a \$25 fee to submit the request.

Contributors to this Edition of *Update*

Stephen Cooley
 Stephen DeRose, CPA
 Mary Gale
 Aronna Granick
 Patti Franz
 Holly Hansen
 Stephanie Hoffman
 Lonnie King
 Rose Lim
 Larry Knapp, Supervising Investigative CPA
 Greg Newington, CPA, Enforcement Chief
 Doug Reid, Investigative CPA
 Irma Rodriguez
 Hal Schultz, CPA
 Theresa Siepert
 Diana Squire
 Liza Walker
 Moises Yanez

2004 Committee Member Appointments

The Board is pleased to announce that the following licensees were either reappointed or newly appointed to serve on the Board's committees for 2004. Appointments were announced at the Board's regularly scheduled meeting on November 14, 2003, in Sacramento, California.

Administrative Committee

Harish Khanna, CPA, Chair
 Felipe L. Quezada, CPA, Vice Chair
 Barry Franzen, CPA
 Robert R. Lovret, CPA
 Daniel R. Matter, CPA
 Randy W. Miller, CPA
 Kathleen Platz, CPA
 Arthur J. Thielen, CPA
 William L. Woodward, CPA

Qualifications Committee

Nancy J. Corrigan, CPA, Chair
 Michael L. Williams, CPA, Vice Chair
 Gary J. Bong, CPA
 Roger Bulosan, CPA
 Waldemar Faimann III, CPA
 Tracy A. Garone, CPA
 Cheryl M. Gerhardt, CPA
 David M. Graham, CPA
 Hamid Kabani, CPA
 Alice Norwood, CPA
 Robert J. Riley, CPA
 Janet Rosman, CPA
 Terri Webster, CPA

Do You Know What's in Your Wallet?

The little green CPA Pocket I.D. Card is important — especially for those licensees who will be filing applications with the IRS to e-file tax returns. Licensees receive their "green card" upon renewal every two years, after completing the application and submitting the fees. Do you have yours in your wallet?

The green card shows your license is current. Some do keep it in their wallets or in their desks, and never have a use for it. But for those licensees who will be filing applications with the IRS to e-file tax returns, you'll need this card. Form 8633, the *Application to Participate in the IRS E-file Program*, requires that you attach a copy of your current state CPA license.

If you don't know where your green card is, and you plan to apply to participate in the IRS E-file program, use the Board's Web site to apply for a replacement pocket identification card. Please allow four to six weeks to receive your replacement after you submit your request. ♦

Policy of Nondiscrimination on the Basis of Disability and Equal Employment Opportunity

The California Board of Accountancy does not discriminate on the basis of disability in employment or in the admission and access to its programs and activities.

An Americans with Disabilities Act (ADA) coordinator has been designated to coordinate and carry out this agency's compliance with the nondiscrimination requirements of Title II of the ADA. Information concerning the provisions of the ADA, and the rights provided thereunder, is available from:

ADA Coordinator
 California Board of Accountancy
 2000 Evergreen Street, Suite 250
 Sacramento, California 95815-3832

Restatement Reporting Obligations

By Doug Reid, Investigative CPA

One of the questions the Enforcement Program has received in the past year concerns restatements: "I'm issuing an audit report on financial statements that includes the correction of an error in financial statements previously issued to the client, or adjustments to opening balances due to errors in previous periods. What are my reporting obligations under the California Accountancy Act?"

Here is how the question is answered. Business and Professions Code Section 5063 (b), effective January 1, 2003, requires a licensee to report to the Board in writing any restatement of a financial statement and related disclosures by a client audited by the licensee.

The Board also has proposed a new, related regulation (California Board of Accountancy Regulations Section 59) to further define the reporting requirement under Section 5063 (b).

Under proposed Section 59, a licensee who issues a report on a client's restated financial statements shall report to the Board any restatement of a financial statement reporting the **correction of any error** in a previously issued financial statement of a client that is:

- A publicly traded company required to file a tax return with the California Franchise Tax Board.
- A governmental agency located in California when the restatement(s) exceeds the planning materiality used in conjunction with the current year audit.
- A charitable organization registered by the Office of the General's Registry of Charitable Trusts, when the restatement has resulted in the filing of an amended or superceding Internal Revenue Service Form 990 or 990PF.

The report required under Section 5063 shall be made by the licensee issuing the report on the restatement even if the licensee did not perform the original audit. The report must be provided to the Board within 30 days of issuance of the restatement, be signed by the licensee, and set forth the facts constituting the reportable event.

Proposed Rule 59 requires that the report of restated financial statements for publicly-traded companies and governmental agencies must include copies of the original and the restated financial statements. The report involving a charitable organization should include only those portions of the original and amended Forms 990 or 990PF related to the reissued financial statements.

The proposed Rule 59 reflects the present consensus of the Board. Therefore, in the interim, prior to their effective date, licensees are encouraged to submit written reports of only those restatements specified in the proposed regulation Rule 59.

The full text of the proposed regulation was published in *Update # 55*, mailed to licensees and is currently posted on the Board's Web site. ❖

Clarifying Audit Documentation Requirements

By Larry Knapp, Supervising Investigative CPA

Some of the new statutes that became effective on January 1, 2003, relate to audit documentation, such as Business and Professions Code Sections 5097 and 5098. This article provides an overview of the audit documentation requirements under Section 5097 and the corresponding proposed regulations provided for under Section 5098. A future article will discuss the retention requirements for audit documentation.

Section 5097 requires licensees to maintain a record of the procedures and tests performed, information obtained, and the conclusions reached in the performance of an audit engagement. Under the new statute, the audit documentation must be of sufficient quality and quantity to enable a knowledgeable and experienced reviewer, with no previous association with the engagement, to review the audit documentation (working papers) and understand the nature, timing, and extent of the audit work performed, as well as the conclusions reached during the course of an audit. The documentation also must include the identity of the persons who performed and reviewed the audit work.

Section 5097 places a “burden of proof” standard on licensees in that failure to prepare and maintain audit documentation will raise a “rebuttable presumption” that the audit work was not performed. This presumption (that the audit work was not performed) may be overcome if the auditor can provide alternative evidence that satisfies the “preponderance of evidence” standard.

Proposed Regulations 68.2 and 68.4 contain additional guidance regarding audit documentation. These regulations are not yet in effect.

Proposed Regulation 68.2 requires working papers to include:

- A. An index or a guide to the audit documentation;
- B. The date an audit document or working paper was completed and reviewed, along with the identities of both the preparer and the reviewer of the audit work; and,
- C. Both the report date and the date of issuance of the report. Under proposed Regulation 68.4, any changes in audit documentation after the issuance of the audit report must include the identity of the person making the change, the identity of the person approving the change, and the reason for the change in audit documentation.

Similar to Section 5097, the documentation related to the change must contain sufficient detail to enable a knowledgeable and experienced reviewer, with no previous association with the engagement, to understand the nature, timing, reason for, and extent of the change.

Licensees who perform audit services should familiarize themselves with the documentation requirements under the new statutes and proposed regulations. After obtaining an understanding of the specific documentation requirements, licensees are encouraged to review and modify their audit policies, procedures, and quality controls to ensure that their audit engagements comply with these requirements. ♦



What's New at www.dca.ca.gov/cba?

Significant Statistics: Since its inception in late 1998, the Board's Web site has grown from 14 information pages to over 90 information files, 29 publications (including 20 *Updates*), 31 forms, and 25 notices. The site receives an average of over 286,000 visitors each month, and the license lookup feature receives an average of 47,133 "hits" a month.

The Board's outreach program oversees the information provided on our Web site. While the Board no longer has staff resources available to respond immediately to telephone and e-mail requests for information, it still is committed to making information available to all constituents. We have been successful in reducing the number of inquiries received via telephone calls and e-mail requests, while increasing the number of "hits" to our Web site. Purposefully channeling these inquiries through our Board's Web site has allowed flexibility in staffing assignments necessary to be effective given the current business environment.

Most hits per month	August 2003	340,363
Most hits per day	February 6, 2003	18,421
Most hits per hour	August 7, 2003, 9-10 am	2,013

Most requested information: License Lookup, Examination Info,
Update Publications

Most requested forms: Certification Request
CPA Application & Instructions

Publications: We currently have 20 issues of *Update* and 10 publications on our Web site.

Forms: We currently have 31 forms available on the Web site, including interactive forms for the consumer complainant and examination candidate and 21 are PDF-enhanced for filling in on-line and printing out to submit by mail, fax, or visit to the Board office.

Web site links to/from other Web sites: We currently maintain over 70 links FROM our site to related sites, often from more than one page. Additionally, we monitor more than 120 direct links to our site, where there may be outdated or incorrect information. We communicate with other Webmasters to suggest an update or a link to the specific page on our site where they can find the most current information. We continue to monitor the Internet utilizing search engine features to check for new links to ensure the information provided is current and correct.

Number of updates to Web site: In addition to ongoing maintenance, we currently average 12 updates a month to our Web site. Web site changes may include updates to links, calendar activities, disciplinary actions, notices, FAQs, Board contact and general information, regulation changes, current exam cycle information, new or changed information, forms, handbooks, and publications.

Meantime, depending upon staff resources, we hope to be able to enhance more of our forms to make them e-interactive for licensees, applicants, and consumers.

We value your comments and suggestions. Please address your feedback to Ms. Holly Hansen, our Web Page Master, at pagemaster@cba.ca.gov by using the e-mail on your computer, or by clicking on this e-mail address on the bottom of any page of our Web site. ♦

Deferral of Fraud CE

In November 2003, the Governor issued Executive Order S-2-03, which required agencies including the Board to withdraw pending regulations from the Office of Administrative Law for additional review. Amendments to Sections 87, 87.1 and 90 of Title 16 of the California Code of Regulations, would have required fraud continuing education (CE) for licenses renewed on or after July 1, 2004.

The proposed fraud CE requirement will affect only licensees who are subject to the 24-hour A&A or government CE requirement. These licensees will be required to complete an additional eight hours of CE specifically related to the detection and/or reporting of fraud in financial statements. The eight hours of fraud CE will qualify as part of the 80 hours of CE required for license renewal, but will not qualify as part of the 24 hours of A&A or government CE. A summary of the proposed changes is provided below.

Proposed Section 87(d) requires licensees who are subject to the 24-hour accounting and auditing (A&A) or government CE requirement to complete an additional eight hours of CE specifically related to the detection and/or reporting of fraud in financial statements. The

eight hours of fraud CE qualify as part of the 80 hours of CE required for license renewal, but they do not qualify as part of the 24 hours of A&A or government CE requirement.

Proposed Section 87.1(d) requires licensees who are converting to active status and are subject to the 24-hour A&A or government CE requirement to complete eight hours of CE specifically related to the detection and/or reporting of fraud in financial statements prior to license status conversion.

Proposed Section 90(d) grants licensees, who became subject to the A&A or government CE requirement during the last six months of their two-year renewal period, an extension of up to six months to complete the required continuing education. If the licensee already completed 80 hours of qualifying CE when the licensee became subject to the A&A or government CE requirement, the CE completed under this extension also may be reported as part of the 80 hours of CE due in the next renewal period. However, the CE completed during the extension period will not count towards A&A for the next renewal period.

The Board hopes to resubmit the pending regulation changes to the Office of Administrative Law in Spring 2004. Additional information will be posted on the home page of the Board's Web site at www.dca.ca.gov and in future *Updates*. ♦

Information

Each issue of *Update* contains important information about the public accounting profession, including notices of proposed hearings on regulation changes, Board and committee meetings, proposed new regulatory language, and topical information about enforcement, examination, licensure, and continuing education issues. For ease of reference, we suggest that after you receive and read *Update*, you place these issues in your professional library. For your convenience, all issues of *Update* since 1998 also are posted on our Web site at www.dca.ca.gov/cba.

Registration of Accountancy Firms and Fictitious Name Permits

The staff at the California Board of Accountancy receive many calls regarding licensing requirements of an accountancy corporation, accountancy partnership, or registration requirements for a fictitious name permit (FNP). To assist in answering those questions, these are the requirements for licensure and renewal of an accountancy corporation, partnership, and registration of a FNP.

Accountancy Corporation

The application and initial license fee to register an accountancy corporation is \$350. These documents must accompany the Board's corporation application:

- Copy of Articles of Incorporation endorsed by the California Secretary of State.
- Copy of Corporate Bylaws. The bylaws must include language that refers to the restrictions in Section 75.9 of Title 16 of the California Code of Regulations and Sections 13406 and 13407 of the Corporations Code regarding ownership and transfer of share certificates.

Corporation applications submitted to the Board without the required documentation will be returned.

At least one shareholder of the firm must be a California licensee with a valid license to practice public accountancy. Nonlicensees also are permitted to be shareholders of an accountancy corporation. The number of licensed shareholders must be greater than the number of nonlicensee shareholders; however, firms with only two shareholders may have one nonlicensee shareholder.

An accountancy corporation is required to maintain adequate security for claims against it. Security for such claims must consist of either maintaining insurance, or an agreement to jointly and severally guarantee payment by the corporation of its liabilities to its clients.

The processing of complete applications takes approximately eight to ten weeks. To remain in good

standing, the corporation license is subject to renewal every two years. The expiration date is based on the month and year the Board originally approved the application. Currently, the fee is \$200 for the license renewal.

Corporations are required to complete an Accountancy Corporation Name Change application and submit a fee of \$150 to change the firm's name. The Board must approve the name change before the firm can hold out and practice under the amended name.

Accountancy Partnership

The application and initial license fee to register an accountancy partnership is \$350. There are two partnership application types: general and limited liability. No additional documentation is required to license a general partnership other than the Board's application. However, a copy of the Registered Limited Liability Partnership Registration endorsed by the California Secretary of State must accompany the Board's partnership application for the limited liability partnership.

Partnership applications submitted to the Board without the required documentation or disclosure of the firm's federal employer identification number will be returned.

At least one partner of the firm must be a California licensee with a valid license to practice public accountancy. Nonlicensees are also permitted to be minority partners of an accountancy partnership. The number of licensed partners must be greater than the number of nonlicensed partners; however, firms with only two partners may have one partner who is a nonlicensee.

The processing of complete applications takes approximately eight to ten weeks. To remain in good standing, the partnership license is subject to renewal every two years. The expiration date is based on the month and year the Board originally approved the application. Currently, the fee is \$200 for the license renewal.

Partnerships are required to complete an Accountancy Partnership Name Change

(Please see Registration of Accountancy Firms and FNPs, continued to page 16)

application and submit a fee of \$150 to change the firm's name. The Board must approve the name change before the firm can hold out and practice under the amended name.

Fictitious Name Permit (FNP)

A FNP registration is required if a sole proprietor wishes to practice public accountancy under a name other than the one printed on the certificate issued by the Board. A FNP is issued to a licensee with a valid license to practice public accountancy, not an accountancy corporation or partnership. There is no fee required to register the FNP; however, the FNP must be approved prior to use.

Soon, the FNP will be subject to renewal every five years. There will be no fee to renew the FNP. The licensee must notify the Board in writing if there is a change in the FNP name.

Obtaining Forms

These forms are expected to be available on the Board's Web site in the near future. In the meantime, questions or requests for forms may be directed via e-mail to firminfo@cba.ca.gov or by contacting Board staff at (916) 263-3947. ♦

Alert: Noninteractive Self-Study CE to be Accepted Through 2004

In previous issues of *Update*, the Board notified its licensees of revisions to Section 88.2 of the Accountancy Regulations that were scheduled to become effective January 1, 2004. These regulations make the Board's self-study CE requirements consistent with the Statement on Standards for Continuing Education issued by the American Institute of Certified Public Accountants and the National Association of State Boards of Accountancy. The revisions also prohibit noninteractive self-study courses for an active license renewal. In addition, all paper-text courses will be required to be in an interactive format to qualify as CE. Credit for these courses will be granted for 100 percent of the average completion time.

However, because of concerns that many CE providers have not yet modified their courses — and the uncertainty of an effective date because of the Governor's Executive Order S-2-03 suspending all pending regulations — during the period January 1, 2004, through December 31, 2004, the Board will accept both interactive and noninteractive CE courses. Credit for interactive CE courses (both technology-based and paper-text courses) will be granted for 100 percent of the average completion time. Credit for noninteractive CE courses will be granted for 50 percent of the average completion time.

Courses must feature the following, to be considered interactive:

- Require frequent participant response to questions that test for understanding of the material presented.
- Provide evaluated feedback to incorrectly answered questions.
- Provide reinforcement feedback to correctly answered questions.

Evaluated feedback means a response specific to each incorrect answer of the study questions that explains why the particular answer is wrong, as each one is incorrect for a different reason. *Reinforcement feedback* means a response to the correct answer of the study questions that restates and explains why the answer selected was correct.

After January 1, 2005, only interactive continuing education courses will be accepted by the Board for CPA/PA license renewal. ♦

Future Meetings

February 26-27, 2004

**Committee on Professional Conduct/
Board Meeting**
*The Westin St. Francis
335 Powell Street
San Francisco, California 94102*

August 12, 2004

Administrative Committee
*Capitol Plaza Holiday Inn
300 J Street
Sacramento, California 95814
(916) 446-0100*

April 28, 2004

Qualifications Committee
*Hilton Costa Mesa
3050 Bristol Street
Costa Mesa, California 92626
(714) 540-7000*

September 17, 2004

**Committee on Professional Conduct/
Board Meeting**
Sacramento

May 6, 2004

Administrative Committee
Los Angeles

October 20, 2004

Qualifications Committee
*The Westin Hotel Los Angeles Airport
5400 West Century Boulevard
Los Angeles, California 90045
(310) 216-5858*

May 13-14, 2004

**Committee on Professional Conduct/
Board Meeting**
Los Angeles

November 4, 2004

Administrative Committee
Los Angeles

July 14, 2004

Qualifications Committee
Board Office, Sacramento

November 19, 2004

**Committee on Professional Conduct/
Board Meeting**
Los Angeles

July 16, 2004

**Committee on Professional Conduct/
Board Meeting**
San Diego

Board, committee, and task force meetings are open to the public. Licensees are encouraged to attend. As meeting locations become known, they will be posted on the Board's Web site at www.dca.ca.gov/cba and also are available by calling the Board's office at (916) 263-3680.

Public notices and agendas are posted to the Web site at least 10 days prior to the meeting.

Disciplinary Actions and Standard Probationary Terms

When the Board receives a complaint, an investigation is conducted. Information regarding a complaint generally is gathered by staff Investigative CPAs, often accompanied by a licensee's appearance before the Board's Administrative Committee. In some cases, information is gathered by the Department of Consumer Affairs Division of Investigation.

Following this investigation, or for other reasons, a recommendation is made either to close the case for lack of evidence, or to refer the matter to the Attorney General for review and possible preparation of an accusation against the licensee or a statement of issues relating to the applicant.

The Board may revoke, suspend, or impose probation on a license for violation of applicable statutes or regulations. In addition to any case-specific terms of probation, the standard probationary terms include:

- Obey all federal, California, other state, and local laws, including those rules relating to the practice of public accountancy in California.
- Submit within 10 days of completion of the quarter, written reports to the Board on a form obtained from the Board. The Respondent shall submit, under penalty of perjury, such other written reports, declarations, and verification of actions as are required. These declarations shall contain statements relative to respondent's compliance with all the terms and conditions of probation. Respondent shall immediately execute all release of information forms as may be required by the Board or its representatives.
- During the period of probation, appear in person at interviews or meetings as directed by the Board or its designated representative, provided such notification is accomplished in a timely manner.
- Comply with the terms and conditions of the probation imposed by the Board, and cooperate fully with representatives of the Board in its monitoring and investigation of the respondent's compliance with probation terms and conditions.
- Be subject to, and permit a "practice investigation" of the Respondent's professional practice. Such a "practice investigation" shall be conducted by representatives of the Board, provided notification of such review is accomplished in a timely manner.
- Comply with all final orders resulting from citations issued by the California Board of Accountancy.
- In the event Respondent should leave California to reside or practice outside this state, Respondent must notify the Board in writing of the dates of departure and return. Periods of non-California residency or practice outside the state shall not apply to reduction of the probationary period, or of any suspension. No obligation imposed herein, including requirements to file written reports, reimburse the Board costs, or make restitution to consumers, shall be suspended or otherwise affected by such periods of out-of-state residency or practice, except at the written direction of the Board.
- If Respondent violates probation in any respect, the Board, after giving respondent notice and an opportunity to be heard, may revoke probation and carry out the disciplinary order that was stayed. If an accusation or a petition to revoke probation is filed against Respondent during probation, the Board shall have continuing jurisdiction until the matter is final, and the period of probation shall be extended until the matter is final.
- Upon successful completion of probation, respondent's license will be fully restored.

If charges are filed against a licensee, a hearing may be held before an independent administrative law judge who submits a proposed decision to be considered by the Board of Accountancy, or the matter may be settled. The Board may either accept the proposed decision or decide the matter itself. Please note that Board actions reported here may not be final. After the effective date of the Board's decision, the licensee may obtain judicial review of its decision. On occasion, a court will order a stay of the Board's decision or return the decision to the Board for reconsideration.

Copies of the accusations, decisions, and settlements regarding any of these disciplinary actions are available by sending a written request to: California Board of Accountancy, Attention: Disciplinary Actions, 2000 Evergreen Street, Suite 250, Sacramento, CA 95815-3832. Please state the licensee's name and license number, and allow approximately three weeks for each request.

Disciplinary Board Actions 10/23/03 through 11/8/03

Revocation of CPA Certificate

Name/Board Actions	Cause for Discipline	Code Violation(s) Charged
LINDBERG, WILLIAM D. Costa Mesa, CA (CPA 8593) Revocation of CPA Certificate, via proposed decision. Mr. Lindberg is required to reimburse the Board \$7,344.30 for its investigation and prosecution costs. Effective November 8, 2003	<p>Mr. Lindberg was grossly negligent in the performance of the audit of the financial statements of Advanced Refrigeration Technologies, Inc. for the year ended December 31, 2000.</p> <p>The auditor's report and the working papers prepared in support of the auditor's opinion failed to comply with applicable professional standards. Specifically, Mr. Lindberg's working papers failed to document that the audit was adequately planned, that he obtained an understanding of internal controls, and that he performed audit procedures that assessed the reasonableness of carrying values of receivables, inventory, and patents.</p> <p>The working papers also failed to document Mr. Lindberg's consideration of audit risk and materiality. The financial statements failed to include disclosures required by generally accepted accounting principles related to patents, development stage companies, and accounting for income taxes.</p>	Business and Professions Code, Division 3, Chapter 1, §§ 5062, 5100 (c) and (f). California Code of Regulations, Title 16, Division 1, § 58.

(Please see Disciplinary Actions, continued to page 20)

Disciplinary Board Actions 10/23/03 through 11/8/03

Revocation of CPA Certificate

Name/Board Actions	Cause for Discipline	Code Violation(s) Charged
WILLIAMS, GARY WAYNE Diamond Bar, CA (CPA 63793) Revocation of CPA Certificate, via proposed decision. Effective October 23, 2003	<p>Mr. Williams acted dishonestly and also knowingly prepared, published, and disseminated false, fraudulent, and materially misleading financial statements, reports, or information when he prepared and submitted a false income tax return.</p> <p>The facts and circumstances underlying Mr. Williams's criminal conviction are that he was employed as CFO by an investment firm owned by Ernest F. Cossey. Mr. Cossey asked Mr. Williams how he could avoid disclosing the full amount of his income for 1998. Mr. Williams suggested that they might characterize some of the income as the proceeds of loans made to Mr. Cossey. Mr. Cossey instructed Mr. Williams to implement the plan without further research, and he did so.</p> <p>Mr. Williams knew that the money in question was properly characterized as income and should be reported as such to the Internal Revenue Service. Nonetheless, Mr. Williams prepared a personal income tax return for Mr. and Mrs. Cossey for the 1998 tax year in which he underreported the Cossey's income by more than \$2,300,000, resulting in a tax loss to the United States of more than \$700,000.</p>	<p>Business and Professions Code, Division 3, Chapter 1, § 5100 (c), (i), and (j).*</p> <p>* Business and Professions Code, Section 5100, prior to January 1, 2003.</p>

(Please see Disciplinary Actions, continued to page 21)

Other Board Actions through 12/21/03

Name/Board Actions	Cause for Discipline	Code Violation(s) Charged
CHANG, DAVID H. Los Angeles, CA (CPA 47845) Revocation stayed, with three years' probation, via stipulated settlement. Suspension of practice for a period of 180 days. Mr. Chang shall complete a Board-approved ethics examination with a score of 90 percent or better. Mr. Chang shall complete 24 hours of continuing professional education in addition to the 80 hours required for renewal. Mr. Chang shall maintain an active status license with the Board, including during the period of suspension. Mr. Chang is required to reimburse the Board \$10,140 for its investigation and prosecution costs. Other standard terms and conditions. Effective December 21, 2003	<p>For purposes of settlement, Mr. Chang admits he falsely indicated on his application for the renewal period ending August 31, 1999, that he did not issue financial reports and that he was not practicing public accountancy. The licensee issued an audit report on March 12, 1999, which was within the 24-month period prior to his license expiration date of August 31, 1999.</p> <p>Mr. Chang was unable to document the necessary continuing education for the renewal periods ending August 31, 1999 and 2001.</p> <p>Mr. Chang failed to provide documentation that he completed the required 80 hours for each renewal period, including 24 hours of continuing education in the Accounting & Auditing subjects as needed for each of these renewal periods.</p>	Business and Professions Code, Division 3, Chapter 1, § 5100 (b) and (g). California Code of Regulations, Title 16, Division 1, § 87 (a), (c), and 89.

(Please see Disciplinary Actions, continued to page 22)

Disciplinary Definitions

Accusation

A formal document that notifies a licensee of the agency's charges against the licensee.

Cost Recovery

The licensee is ordered to pay the Board certain costs of investigation and prosecution including, but not limited to, attorney fees.

Default Decision

The licensee failed to file a Notice of Defense or has otherwise failed to request a hearing, object, or otherwise contest the accusation. The Board takes action without a hearing based on the accusation and documentary evidence on file.

Effective Date

The date the disciplinary decision becomes operative.

Probation

The licensee may continue to engage in activities for which licensure is required, under specific terms and conditions.

Reinstatement

A revoked license that is restored, not sooner than one year from the date of revocation, to a clear or inactive status after petition to and approval by the Board. Reinstatement may include probation and/or terms and conditions.

Revocation

The individual, partnership, or corporation is no longer licensed as a result of a disciplinary action.

Stayed

The action does not immediately take place and may not take place if the licensee complies with other conditions (such as a probation term).

Stipulation

The matter is negotiated and settled without going to hearing.

Suspension

The licensee is prohibited for a specific period of time from engaging in activities for which licensure is required.

Surrendered

The licensee has surrendered the license. The individual, partnership, or corporation is no longer licensed. The Board, however, may impose discipline against a surrendered license in certain circumstances. Surrender also may require certain conditions be met should the former licensee ever choose to reapply for licensure.

ADDRESS CHANGE FORM

A separate address change form must be submitted for each license type.

PLEASE PRINT

Name of Applicant for Licensure

Last	First	Middle

Name of Licensee

Individual (CPA/PA) - License No. _____

Last	First	Middle

Name of Firm

☐ Corporation ☐ Partnership ☐ Fictitious Name License No. _____

Firm Name

NEW Address of Record (An Address of Record is Required)

☐ Home ☐ Business (check one)

Be advised that if you are a licensed CPA/PA or firm, your address of record is public information, and all Board correspondence will be sent to this address.

--

Business Name (if different from name above)

--

Street ☐ Apt. # ☐ Suite # (check one)

--	--	--

City State Zip

Former Address of Record

--

Street ☐ Apt. # ☐ Suite # (check one)

--

City State Zip

Alternate Address for Mail Drops and PO Boxes

If your address of record is a PO Box or Mail Drop, you are required to provide a street address. This address will not be posted on the Board's Web License Lookup.

--

Street ☐ Home ☐ Business (check one) ☐ Apt. # ☐ Suite # (check one)

--	--	--

City State Zip

Daytime Phone Number

-	-
Area Code	

You may confirm your change of address on license lookup at www.dca.ca.gov/cba.

I certify the truth and accuracy of all of these statements and representations.

Signature _____ Date _____

Print your name _____

A licensee who fails to notify the California Board of Accountancy within 30 days of a change of address of record may be subject to citation and fine (fines ranging from \$100-\$1000) under the California Code of Regulations, Title 16, Division 1, Sections 3 and 95.2.

The Board maintains a list of all licensees. This list is sold to requestors for mailing list purposes. Check here only if you do not want your name included on this list. *Please Note: Your name and address of record is public information and can be accessed through our Web site at www.dca.ca.gov/cba.*

Mail to: California Board of Accountancy, 2000 Evergreen Street, Suite 250, Sacramento, CA 95815-3832
or **FAX to:** (916) 263-3675

California Board of Accountancy Directory

Board Office	(916) 263-3680
Board Office Facsimile	(916) 263-3675
License Status Check	(916) 263-3680
.....	www.dca.ca.gov/cba
General Examination Questions	examinfo@cba.ca.gov
.....	(916) 263-3953 or (916) 263-3958
.....	Facsimile (916) 263-3677 or (916) 614-3253
Enforcement Information and Questions	enforcementinfo@cba.ca.gov
.....	(916) 263-3971
.....	Facsimile (916) 263-3673
Certifications	(916) 263-3947
Initial Licensing — Individual:	licensinginfo@cba.ca.gov
.....	fingerprinting@cba.ca.gov
.....	(916) 263-3947
.....	Facsimile (916) 263-3676
Initial Licensing — Partnerships, Corporations, Fictitious Names:	firminfo@cba.ca.gov
.....	(916) 263-3947
.....	Facsimile (916) 263-3676
Renewal for CPA/PA, Partnerships, Corporations, Continuing Education:	
.....	renewalinfo@cba.ca.gov
.....	(916) 263-3934
.....	Facsimile (916) 263-3672
Web Site Address	www.dca.ca.gov/cba
Web Page Master	pagemaster@cba.ca.gov
General Inquiries	editor@cba.ca.gov

Department of Consumer Affairs
California Board of Accountancy
Update **Issue #56**
 2000 Evergreen Street, Suite 250
 Sacramento, California 95815-3832
 (916) 263-3680
www.dca.ca.gov/cba

PRSR STD
 U.S. POSTAGE
PAID
 PERMIT NO. 2853
 SACRAMENTO CA

Address Service Requested

Board Members

Ian B. Thomas, President
 Renata Sos, Esq., Vice President
 Stuart Waldman, Esq., Secretary-Treasurer
 Ronald Blanc, Esq.
 Richard S. Charney, D.C.
 Ruben A. Davila, CPA, Esq.
 Charles R. Drott, CPA
 Sally A. Flowers
 Gail K. Hillebrand, Esq.
 Thomas Iino, CPA
 Clifton Johnson
 M. Olga Martinez, CPA
 Wendy S. Perez, CPA
 Joseph Tseng, CPA
 David C. Walton, CPA, Esq.
 Carol Sigmann, Executive Officer
 Mary Crocker, Assistant Executive Officer
 Greg Newington, CPA, Enforcement Program Chief
 Patti Franz, Licensing Program Manager
 Mary L. Gale, *Update* Managing Editor
 Terri L. Dobson, *Update* Design and Production

Committee Chairs

Administrative Committee, Harish Khanna, CPA
 Qualifications Committee, Nancy J. Corrigan, CPA
 Report Quality Monitoring Committee, Andy Mintzer, CPA